

Message Text

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ACTION AF-10

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COME-00 EB-08 FRB-03 INR-10 NSAE-00 ICA-11
TRSE-00 XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01
NSC-05 SS-15 STR-07 CEA-01 AGRE-00 IO-13 /115 W
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FM AMEMBASSY ADDIS ABABA
TO SECSTATE WASHDC 9581
INFO AMEMBASSY BERLIN
AMEMBASSY MOSCOW

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E.O. 11652: GDS
TAGS: ECON, EFIN, ET
SUBJECT: ECONOMIC SITUATION - AN INSIDE VIEW

SUMMARY: CZECHOSLOVAKIAN U.N. ADVISOR IN MINISTRY OF COMMERCE AND TOURISM CLAIMS HIGH LEVEL DECISION ALREADY MADE BY PMGSE TO CONCENTRATE ON REVERSING DETERIORATING ECONOMIC SITUATION ONCE REVOLUTION ANNIVERSARY FESTIVITIES OUT OF THE WAY. CURRENT DRAFT BUDGET BEING PRUNED TO CUT DOWN PROJECTED 600 MILLION BIRR (US\$300 MILLION) DEFICIT. FINANCING PROSPECTS A MAJOR CONCERN. DOUBTFUL THAT ETHIOPIA WILL JOIN CEMA, ALTHOUGH MAY RETAIN OBSERVER STATUS. END SUMMARY.

1. ON AUGUST 28 A CZECHOSLOVAKIAN U.N. TRADE AND DEVELOPMENT SPECIALIST WHO HAS BEEN AN ADVISER IN THE MINISTRY OF COMMERCE AND TOURISM SINCE MARCH 1978, IN CANDID CONVERSATION WITH EMBOFF, STATED THAT A DEFINITE HIGH LEVEL DIRG DECISION HAD BEEN REACHED TO UNDERTAKE MEASURES TO REVERSE DETERIORATING ECONOMIC AND FINANCIAL CONDITIONS. CONCENTRATED

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EFFORTS ARE TO BE INITIATED JUST AS SOON AS THE SEPTEMBER 12 - 13 ANNIVERSARY CELEBRATIONS ARE OVER.

2. DISCUSSING THE OVERALL POOR PRODUCTIVITY OF THE RELATIVELY FEW EXISTING INDUSTRIAL OPERATIONS, SOURCE CITED SPECIFICALLY ETHIOPIA'S LARGEST TANNING FACTORY, ESTABLISHED WITH CZECHOSLOVAKIAN

TECHNICAL ASSISTANCE DESIGNED TO PROCESS ONE THOUSAND UNITS PER DAY, HE CLAIMED THE FACTORY IS NOW PROCESSING FIVE HUNDRED UNITS PER WEEK. THE MAIN PROBLEM, HE SAID, WAS LACK OF HIDES AND SKINS, LARGELY DUE TO THE POOR MANAGEMENT STAFF INSTALLED BY THE PMGSE. HE ALSO NOTED THAT THE REPLACEMENT OF PROCUREMENT SPECIALISTS WITH INEXPERIENCED AND LESS CAPABLE GOVERNMENT APPOINTEES WAS A MAJOR FACTOR IN REDUCING THE AMOUNT OF COFFE AVAILABLE FOR EXPORTING. WHILE SUCH ARE "GROWING PAINS" TO BE EXPECTED, HE SAID, THE EFFECT HAS BEEN TO REDUCE ECONOMIC GROWTH. (LACK OF PRODUCTIVITY, POOR MANAGEMENT, POOR PROCUREMENT, TRANSPORT AND PRICING POLICIES HAVE ALL BEEN NOTED BY A RANGE OF SOURCES AS CONTRIBUTING TO AN EVER INCREASING DECLINE IN BOTH INDUSTRIAL AND AGRICULTURAL PRODUCTION. THERE ARE RECENT INDICATIONS THAT THE MATTER HAS BECOME OF SERIOUS CONCERN TO TOP LEVEL PMGSE OFFICIALS. - ED.)

3. THE INITIAL DRAFT BUDGET PUT TOGETHER BY THE PMGSE FORECAST A DEFICIT OF SIX HUNDRED MILLION BIRR (US\$300 MILLION). THE VARIOUS MINISTRIES ARE CURRENTLY ENGAGED IN CUTTING BACK THE LEAST ESSENTIAL EXPENDITURES, ACCORDING TO THE UN ADVISER. HE ADDED THAT FINANCING OF TOP PRIORITY PROJECTS

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IS A MAJOR PMGSE CONCERN.

4. SOURCE STATED THAT HE HAS ADVISED THE PMGSE TO IMPOSE AN EVEN MORE AUSTERE IMPORT POLICY, BUT ALSO TO OPEN SPECIAL HARD CURRENCY SHOPS TO INCLUDE LUXURY ITEMS FOR THE LARGE DIPLOMATIC COMMUNITY IN ADDIS ABABA. A DECISION ON THE SPECIAL SHOPS IS CURRENTLY PENDING IN THE DIRG, WHILE IT IS ALMOST ASSURED THAT FURTHER IMPORT RESTRICTIONS AFFECTING THE GENERAL POPULACE WILL BE IMPOSED, ACCORDING TO SOURCE.

5. SOURCE BELIEVES IT IS VERY UNLIKELY THAT ETHIOPIA WILL BE ADMITTED TO CEMA, EVEN IN AN ASSOCIATE RELATIONSHIP. ABOUT THE MOST THAT CAN BE EXPECTED IS THAT ETHIOPIA WILL CONTINUE TO BE ADMITTED TO CEMA MEETINGS IN AN OBSERVER CAPACITY.

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6. COFFEE EXPORTS TO EAST GERMANY DURING THE CURRENT COFFEE YEAR HAVE BEEN APPROXIMATELY 10,000 MT, SOURCE STATED. NEITHER THE COMMUNISTS NOR THE ETHIOPIANS ARE VERY HAPPY ABOUT THESE SALES, HE ADDED. THE SOVIETS ARE CURRENTLY NEGOTIATING ANOTHER COFFEE PURCHASE, AND THEY ARE CHAGRINED THAT THE PARASTABOL COFFEE MARKETING AGENCY (CMA) IS NOT YET CAPABLE OF HANDLING THE TRANSACTION ALONE; IT MUST RESORT TO COOPERATING WITH PRIVATE EXPORTERS TO MEET DEMANDS. (OTHER SOURCES CONFIRM THAT THE CMA IS STILL MUCH TOO WEAK AND INEXPERIENCED TO COMPETE WITH THE PRIVATE EXPORTERS ON EQUAL GROUNDS. ALTHOUGH THE PMGSE EVENTUALLY HOPES TO TAKE OVER ALL COFFEE EXPORTS, IT WILL PROBABLY BE THREE OR FOUR YEARS BEFORE THEY ARE IN ANY POSITION TO DO SO WITHOUT SERIOUSLY ADVERSELY AFFECTING TOTAL COFFEE EXPORTS. - ED.)

7. AN EAST GERMAN ECONOMIC/TRADE DELEGATION IS SCHEDULED TO ARRIVE IN ADDIS ABABA IN OCTOBER, SOURCE CLAIMED. COFFEE SALES AND ECONOMIC VENTURES ARE LIKELY TO BE DISCUSSED, ALTHOUGH THE ETHIOPIANS

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LOOK SUSPICIOUSLY UPON JOINT VENTURES WITH EITHER THE WEST OR THE EAST.

COMMENT: SOURCE IS EXPERIENCED UN ADVISER WHO

APPEARS TO BE PRAGMATIC AND LEVEL HEADED. IN THE PAST HE WORKED FOR A TIME WITHIN CEMA. A WIDOWER, HE HAS A CHILD IN THE AMERICAN COMMUNITY SCHOOL IN ADDIS. ASSIGNED TO ETHIOPIA FOR TWO YEARS, HE IS ALREADY DISILLUSIONED, BELIEVING THAT HE IS NOT LIKELY TO ACCOMPLISH VERY MUCH DURING HIS STAY HERE. HE CLAIMED THAT "THE ETHIOPIANS ARE NOT INCLINED TO ACCEPT ADVICE FROM ANYONE."

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